

## REMUNERATION REPORT

### Letter from the Remuneration Committee Chairman

Dear Shareholder,

On behalf of the Board of NAB, I present to you the 2018 Remuneration report.

#### Driving sustainable performance through alignment of rewards

The Board is determined to drive a focus on exceptional customer service at every level of the Group to achieve our strategy and deliver sustainable, long-term performance. Aligning employee remuneration with customer and shareholder interests assists in doing so.

We accept that traditional incentive schemes have contributed to a focus on short-term, financial outcomes in the financial services sector. This does not best serve the interests of customers, shareholders or NAB itself.

In 2018, we introduced a new Executive remuneration framework to encourage long-term decision making and drive performance that represents the interests of all NAB stakeholders. We will continue to monitor the outcomes over time to assess the effectiveness of the framework.

Across the business, 100% of our people now have a balanced scorecard (or performance plan), with compulsory customer and risk measures. Our standard Group variable reward plan now covers 97% of our people. NAB is fully compliant with the retail banking remuneration related recommendations of the Sedgwick Report, in advance of the 2020 deadline – and we will continue to make further improvements.

#### 2018 Group performance

Our financial performance this year was solid. Good progress has been made on executing NAB's transformational strategy. However, NAB did not achieve the Board's target improvement in customer outcomes.

The Board considers that customer, risk and reputation matters, many of which have featured in the Royal Commission, should have been dealt with better and faster.

The Board considers that the Executive Leadership Team needs to do more, individually and collectively, to ensure that NAB always 'does the right thing' by its customers. This is a core NAB value. The Executive Leadership Team agree, and are fully committed to doing so. The Board believes the Group CEO and refreshed Executive Leadership Team are the right team - individually and collectively - to deliver on NAB's transformation while improving customer, risk and reputation matters.

#### 2018 Outcomes: Group CEO, Executive Leadership Team and employees

Our Group CEO has demonstrated leadership over the past two financial years by agreeing to reductions in his overall annual 'at target' remuneration package by more than \$1.7 million.

In 2018 the Board exercised its discretion to:

- Reduce the One NAB Score for employees to 80% (a 20% reduction from target).
- Reduce the One NAB Score for the Executive Leadership Team to 70% (a 30% reduction from target).

As such, variable reward across NAB was reduced by approximately \$114 million from target.

In 2018 the Board exercised its judgement to provide a variable reward outcome of:

- 45.5% of target (30% of maximum) for the Group CEO. This means that the Group CEO will receive \$3.03 million less (including the illustrative value of dividends) than his target total remuneration for 2018.
- 17.5% – 105% of target for members of the Executive Leadership Team.
- 60% of this variable reward is deferred in shares and restricted until 2022 to drive long-term decision making and to align with the shareholder experience.

The wide range of variable reward outcomes across the Executive Leadership Team reflects differential performance against individual performance plans (including driving transformation initiatives and addressing risk priorities), as well as varying accountability for customer, risk and reputation matters.

Differences in performance with respect to the risk component were the most important factor, with the Board reducing variable reward outcomes for individual Executives by 10% - 75% for risk matters.

The Board also exercised its discretion to forfeit deferred variable reward for a number of individuals, including former Executives, given many of the customer, risk and reputation matters pre-date the current Executive Leadership Team.

### REMUNERATION REPORT (CONTINUED)

The Board expected that variable reward outcomes under the new Executive remuneration framework would vary significantly among Executives. 2018 has shown that it has.

Detail on individual remuneration outcomes for the Group CEO and Executive Leadership Team are in the report that follows.

#### **Executive remuneration framework**

The new Executive remuneration framework for the Group CEO and Executive Leadership Team is much simpler, removes complexity and encourages performance that represents the interests of all NAB stakeholders over the long-term.

The new framework makes more transparent the means by which the Board holds leaders accountable when they (or NAB) fall short of customer, shareholder and key stakeholder expectations. It also facilitates increased variable reward for when Executives perform or deliver above expectations.

It is aligned to the shareholder experience and outcomes, as 60% of variable reward is provided in dividend paying shares. These are deferred for at least four years to encourage long-term thinking and to build a significant shareholding, so Executives experience the same outcome as shareholders on a significant component of their remuneration. These deferred shares can be further deferred, clawed back or forfeited at the Board's discretion.

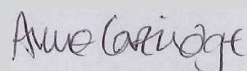
The Board's application of the new Executive remuneration framework demonstrates an appropriate balance between being competitive internationally for talent and delivering remuneration that is aligned with customer and shareholder outcomes – both this year and into the future.

Deferred shares will be allocated based on face value, instead of fair value. This is simpler and provides transparency on the value of remuneration earned.

The new framework is compliant with the *Banking Executive Accountability Regime* (BEAR). And for Executive Leadership Team members other than the Group CEO, exceeds the level of deferral required by BEAR.

The Board is determined that Executive accountability – individual and collective – be reflected in remuneration outcomes. The 2018 remuneration outcomes demonstrate the Board exercising judgement and discretion. The 2018 remuneration outcomes appropriately balance the solid financial performance in 2018 and good progress on our transformation, offset by customer, risk and reputation matters.

We welcome your ongoing feedback.



Anne Loveridge

Remuneration Committee Chairman

## REMUNERATION REPORT (CONTINUED)

### Key remuneration outcomes for 2018

#### A much simpler Executive remuneration framework

- In 2018 NAB introduced a much simpler Executive remuneration framework for the Group CEO and Senior Executives.
- It was applied with effect from 1 October 2017.
- The new framework removes complexity and encourages performance that represents the interests of all NAB stakeholders. Its development involved engagement with investors, proxy advisors, regulators and executives. It is designed to encourage long-term decisions, to ensure that NAB delivers exceptional customer service and to align Executive variable reward with shareholder outcomes.
- The Group CEO and Senior Executives now receive remuneration in only two components. The first component is Fixed Remuneration (FR) (effectively base salary). The second component is a Variable Reward (VR). The VR is “at-risk” (i.e. not guaranteed) and is at the Board’s discretion, based on the performance of the individual and the performance of the Group.

See Section 2 for further information.

#### Changes to the remuneration framework for other employees

- In 2018 NAB closed a number of legacy sales based reward plans. 97% of NAB’s employees are now on a single variable reward plan with a similar structure to that applying to Executives.
- From 1 October 2018, NAB is fully compliant with the retail banking remuneration related recommendations of the Sedgwick Report, in advance of the 2020 deadline.

#### Reduction in the Group CEO’s target remuneration

Over the last three years, the Board has responded to feedback from external stakeholders by reducing the Group CEO’s target remuneration and increasing the minimum period of deferral applying to a portion of that remuneration. The following graph shows the Group CEO’s target total remuneration from 2016 to 2018 and his actual remuneration for 2018.



All components in the graph above are shown on a face value basis for comparison purposes. The amounts are calculated as follows:

- Fixed remuneration is annualised salary and superannuation.
- Short Term Incentive (STI) cash was 50% of target STI opportunity for the relevant year (100% of FR for that year).
- 2018 VR cash is 40% of the target VR opportunity (200% of FR) and 2018 actual VR cash is 40% of 2018 actual VR.
- The STI deferred rights amounts were converted to face value using NAB’s weighted average share price over the five trading days immediately preceding 11 November 2016 for 2016 and over the five trading days immediately preceding 30 September 2017 for 2017.
- The 2016 Long Term Incentive (LTI) amount shown is converted to face value using NAB’s weighted average share price over the five trading days immediately preceding 10 December 2016. For 2017, the LTI was a face value allocation using NAB’s weighted average share price over the five trading days immediately preceding 30 September 2017.
- The illustrative dividend amounts represent the gross value of dividends (including the value of imputation credits applying to the dividends) paid during the relevant deferral / performance period and assume (for illustrative purposes only) that NAB will continue to pay a fully franked dividend of 99 cents per share every 6 months during the relevant deferral / performance period.

#### Fixed remuneration

- No increase for the Group CEO.
- Increases for Anthony Healy (18.5%), Sharon Cook (12.5%), Gary Lennon (10%) and Patrick Wright (15.4%) to reflect an extension of their roles and / or to maintain alignment with the external market.
- No increase for any other Senior Executives.

#### Non-executive director fees

- No increase to Board or Board Committee fees in 2018.
- Board and Board Committee fees have not increased since 2016.

## REMUNERATION REPORT (CONTINUED)

### Key remuneration outcomes for 2018 (continued)

<b>2018 Group performance</b>	cash earnings <sup>(1)</sup> / <sup>(2)</sup> <b>\$5.70 billion</b> 14.2% decrease from 2017	cash return on equity (cash ROE) <sup>(2)</sup> <b>11.7%</b> 230 basis points decrease from 2017	cash return on total allocated equity (ROTAE) <sup>(2)</sup> <b>12.1%</b>	productivity savings <b>106.7%</b> <b>\$320 million against plan of \$300 million</b>  priority segments net promoter score <sup>(3)</sup> <b>-15</b> <b>2 point decrease from August 2017 to August 2018</b>
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- 2018 Variable Reward outcomes for Executives**
- The actual VR earned by each Executive was determined based on the Group's performance, the Executive's individual performance and the Executive's target VR opportunity.
  - The Board assessed the Group's performance against the performance measures above as well as a number of qualitative measures, including matters that have featured in the Royal Commission, and determined a Board adjusted 'One NAB Score' of 80% for eligible employees across the Group.
  - The Board exercised its discretion to reduce the One NAB Score for Executives by a further 10%, to 70% <sup>(4)</sup>. The Board took that action because it considers that the Executives need to do more, individually and collectively, to ensure that NAB always does the right thing by its customers.

Performance measure	Weighting	Outcome	Result
Cash earnings	25%	95% Achieved	• \$5.70 billion against plan of \$6.02 billion
Cash ROE	25%	96% Achieved	• 11.7% against plan of 12.2%
ROTAE	25%	95% Achieved	• 12.1% against plan of 12.7%
Transformation	25%	50% Achieved	• Productivity savings of \$320 million against plan of \$300 million • Average Priority Segments NPS score of -15 is below the target score of -10 (August 2017 to August 2018)
Board adjusted One NAB Score		80%	
<b>Board adjusted One NAB Score for Executives</b>		<b>70%</b>	

- Individual Executive responsibilities vary, as does accountability for the matters that have featured in the Royal Commission.
- The Board applied judgment in assessing each Executive's performance against their individual performance plan (including a review of risk performance) and determined an individual score for each Executive which resulted in individual variable reward outcomes in the range 17.5% to 105% of target. <sup>(4)</sup>

See Sections 2.6 and 2.9 for further information.

<sup>(1)</sup> Information is presented on a continuing operations basis.

<sup>(2)</sup> Refer to the Glossary for definitions of cash earnings, cash ROE and ROTAE. A reconciliation between statutory net profit and cash earnings is included in Note 2 Segment information of the financial statements.

<sup>(3)</sup> Net Promoter® and NPS® are registered trademarks and Net Promoter Score and Net Promoter System are trademarks of Bain & Company, Satmetrix Systems and Fred Reichheld. Priority Segments NPS is a simple average of the NPS scores of four priority segments: Home Owners, Investors, Small Business (\$0.1 million - <\$5 million) and Medium Business (\$5 million - <\$50 million). The Priority Segments NPS data is based on six month moving averages from Roy Morgan Research and DBM BFSM Research. The Executives NPS 2018 targets and performance were measured over the period August 2017 to August 2018.

<sup>(4)</sup> Excluding Antony Cahill, who left NAB in August 2018, and Rachel Slade who was acting in the Group Executive Customer Products and Services role from August 2018 and as such was assessed on the basis of her previous role.

## REMUNERATION REPORT (CONTINUED)

### Key remuneration outcomes for 2018 (continued)

**Executive remuneration outcomes** The table below provides a summary of the remuneration that was awarded to Executives during 2018 while they were Executives. The amounts shown include fixed remuneration, VR to be paid in cash, VR to be provided in VR deferred shares and the number of VR deferred shares to be allocated to each Executive.

Name	Fixed remuneration <sup>(1)</sup> \$	Actual VR cash \$	Remuneration received in cash \$	Actual VR deferred shares No.	Actual VR deferred shares \$	Total remuneration \$	Actual VR as % of VR target %
<b>Group CEO</b>							
Andrew Thorburn	2,282,511	837,200	3,119,711	45,450	1,255,800	4,375,511	45.5
<b>Senior Executives</b>							
Mike Baird	1,222,965	571,200	1,794,165	31,009	856,800	2,650,965	70.0
Sharon Cook	803,013	362,880	1,165,893	19,700	544,320	1,710,213	84.0
David Gall	1,306,557	305,760	1,612,317	16,599	458,640	2,070,957	49.0
Andrew Hagger <sup>(2)</sup>	1,198,529	142,800	1,341,329	-	214,200	1,555,529	17.5
Anthony Healy	1,519,003	571,200	2,090,203	31,009	856,800	2,947,003	70.0
Gary Lennon	1,104,291	418,880	1,523,171	22,740	628,320	2,151,491	56.0
Angela Mentis	1,583,239	571,200	2,154,439	31,009	856,800	3,011,239	70.0
Lorraine Murphy	763,351	285,600	1,048,951	15,504	428,400	1,477,351	52.5
Rachel Slade <sup>(3)</sup>	52,665	19,347	72,012	1,050	29,020	101,032	120.0
Patrick Wright	1,734,833	1,071,000	2,805,833	58,143	1,606,500	4,412,333	105.0
<b>Former Senior Executive</b>							
Antony Cahill	1,109,554	-	1,109,554	-	-	1,109,554	-

<sup>(1)</sup> Fixed remuneration includes cash salary, cash value of non-monetary benefits, superannuation and other long term benefits consistent with the statutory remuneration table in Section 5.1.

<sup>(2)</sup> Mr Hagger ceased as KMP on 1 October 2018 and ceased employment with the Group on 14 November 2018. Details on his cessation arrangements are provided in Section 5.1. Mr Hagger will receive his VR deferred share component in cash at the end of the deferral period, payment of which will be subject to the same forfeiture, deferral extension and clawback conditions as VR deferred shares.

<sup>(3)</sup> Ms Slade remained on the remuneration arrangements of her prior role while acting in the Group Executive Customer Products and Services role. The amounts shown relate to the portion of 2018 that Ms Slade was acting as the Group Executive Customer Products and Services.

Direct comparisons with the remuneration awarded in 2017 are impacted by the new Executive remuneration framework, fair value to face value adjustments, the period of time served in a Senior Executive role and actual performance outcomes. Below is a comparison of the remuneration awarded to the Group CEO in 2018 as compared to 2017 shown on a fair value basis. As outlined below, the total remuneration awarded to the Group CEO for 2018 is approximately \$2.1 million (32%) lower than in 2017.

### Group CEO's Remuneration Fair Value Comparison

Name	Fixed remuneration <sup>(1)</sup> \$	Actual VR cash / STI cash \$	Remuneration received in cash \$	Deferred equity available in future years <sup>(2)</sup> \$	Total remuneration awarded in year \$	2018 to 2017 variation \$	
Andrew Thorburn	2018	2,282,511	837,200	3,119,711	1,255,800	4,375,511	(2,072,656)
	2017	2,300,368	977,500	3,277,868	3,170,299	6,448,167	-

<sup>(1)</sup> Fixed remuneration includes cash salary, cash value of non-monetary benefits, superannuation and other long term benefits consistent with the statutory remuneration table in Section 5.1.

<sup>(2)</sup> 2018 deferred equity is shown at face value which is a reasonable approximation of fair value as at 30 September 2018 as the award has no external market performance hurdles and the Executives receive dividends during the deferral period. 2017 includes STI deferred performance rights (\$949,022), half of which are restricted for approximately one year and the remaining half for approximately two years, and LTI (\$2,221,277) which is restricted for four years. While the 2017 LTI was allocated on a face value basis, a fair value amount has been used for comparison purposes. The fair value for the STI deferred performance rights and LTI performance rights has been calculated based on the grant date fair value of the awards as shown in Section 5.3.

Comparing the remuneration awarded to the Senior Executives on a similar basis shows significant reductions for most of the Senior Executives in 2018 compared to 2017.

**REMUNERATION REPORT (CONTINUED)**

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## REMUNERATION REPORT (CONTINUED)

### Section 1 - Key Management Personnel

#### (a) Key Management Personnel in 2018

Key Management Personnel (KMP) are the Directors of NAB and those employees of the Group who have authority and responsibility for planning, directing and controlling the activities of both NAB and the Group. KMP during 2018 were:

##### Non-executive directors

###### Chairman

Kenneth Henry

David Armstrong

Philip Chronican

Peeyush Gupta

Anne Loveridge

Geraldine McBride

Doug McKay

Ann Sherry (from 8 November 2017)

Anthony Yuen

##### Executives

###### Executive Director and Group Chief Executive Officer (Group CEO)

Andrew Thorburn

###### Chief Customer Officer - Corporate and Institutional Banking

Mike Baird

###### Chief Operating Officer

Antony Cahill (to 28 August 2018)

###### Chief Legal and Commercial Counsel

Sharon Cook

###### Chief Risk Officer

David Gall

###### Chief Customer Officer - Consumer and Wealth

Andrew Hagger

###### Chief Customer Officer - Business and Private Banking

Angela Mentis (to 31 December 2017)

Anthony Healy (from 1 January 2018)

###### Chief Financial Officer

Gary Lennon

###### Managing Director and CEO of Bank of New Zealand

Anthony Healy (to 31 December 2017)

Angela Mentis (from 1 January 2018)

###### Chief People Officer

Lorraine Murphy

###### Group Executive Customer Products and Services

Rachel Slade (acting from 28 August 2018)

###### Chief Technology and Operations Officer

Patrick Wright

#### (b) KMP changes after 30 September 2018

Changes were announced to NAB's Executive Leadership Team on 17 September 2018. The changes effective from 1 October 2018 are:

- Mike Baird commenced as Chief Customer Officer Consumer Banking and remained a KMP.
- David Gall commenced as Chief Customer Officer Corporate and Institutional Banking and remained a KMP.
- Shaun Dooley commenced as Chief Risk Officer and became a KMP.
- Rachel Slade commenced as Chief Customer Experience Officer and remained a KMP.
- Andrew Hagger ceased to be a KMP. Mr Hagger left the Group on 14 November 2018.

#### (c) Definitions

The following terms are used throughout this report to describe different groups of KMP.

Term	Meaning
Executives	The Group CEO and the Senior Executives (together, the Executive Leadership Team)
Senior Executives	The Executive Leadership Team, excluding the Group CEO
Employees	Employees of the Group other than the Executives

## REMUNERATION REPORT (CONTINUED)

### Section 2 - New Executive remuneration framework

In 2018 NAB introduced a much simpler Executive remuneration framework for the Group CEO and Senior Executives.

The Board and Remuneration Committee spent significant time over 2017 and 2018 reviewing Executive remuneration arrangements. It was the right thing to do. The new framework removes complexity and encourages performance that represents the interests of all NAB stakeholders. Its development involved engagement with investors, proxy advisors, regulators and executives. Most importantly, it responds to customer, shareholder, regulator and broader stakeholders and is designed to ensure that NAB delivers exceptional customer service.

The new framework is compliant with the BEAR.

It applies with effect from 1 October 2017 – and supersedes changes to the Group CEO’s 2018 remuneration communicated in NAB’s 2017 Remuneration report.

#### 2.1. Why change the framework?

The Board is determined to drive a focus on exceptional customer service at every level of the Group to achieve NAB's strategy and deliver long term performance. If we are to win the trust of our customers and deliver sustainable performance for shareholders, evidence of customer focus needs to be considered alongside financial metrics when assessing Executive performance. Behaviour that does not put the customer first cannot provide a sustainable foundation for any business, and is not aligned with NAB's shareholders.

The four year deferral of a significant proportion of an Executive’s variable reward (paid in shares) emphasises the alignment with shareholders as the deferred component accumulates to represent a significant proportion of an Executive's total remuneration (the total value of which moves in line with shareholder returns). This alignment is important, and for Senior Executives exceeds the level of deferral required by the BEAR.

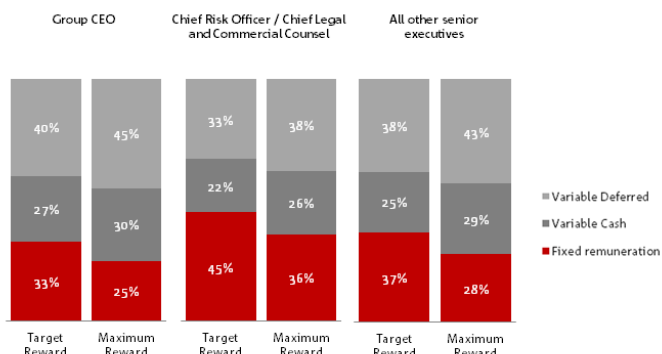
The new Executive remuneration framework makes more transparent the means by which the Board holds Executives accountable when they (or NAB) fall short of customer, shareholder and community expectations.

#### 1. It is simpler, with less remuneration awarded

- Remuneration is provided in two components only: **fixed remuneration** and **variable reward** (replacing "short term" and "long term" incentives)
- Overall remuneration has been reduced (as illustrated by the Group CEO’s target remuneration reduction of 18% over the last 2 years)
- Reduction takes into account change from fair to face value methodology, increased deferral and removal of subsequent specific performance hurdles
- Variable reward is deferred for four years and can be further deferred, clawed back or forfeited
- Using face value provides greater clarity on how the quantum of variable reward is calculated

#### 3. It provides significant ‘at-risk’ remuneration

- The weighting of ‘at-risk’ variable reward reflects the Board’s commitment to performance based reward
- The graphs below illustrate the mix of remuneration components as a proportion of total remuneration



#### 2. Aligned to shareholders, attractive to talent

- Total remuneration packages designed to attract, retain and reward high performers to deliver sustainable customer, shareholder and business outcomes
- Reduced variable reward received in the short-term (and increased proportion in the long-term) to increase the focus on long-term decision making
- Four year deferral of 60% of variable reward builds a significant shareholding, so Executives experience the same outcome as shareholders on a significant component of their remuneration

#### 4. It allows for greater differentiation in variable reward outcomes

- The design allows for variable reward outcomes to vary significantly among Executives
- In 2018, Executive VR outcomes were between 17.5% and 105% of VR target. This reflected differential performance and the exercise of the Board’s discretion
- The Board is determined that Executive performance and accountability – individual and collective – be reflected in remuneration outcomes



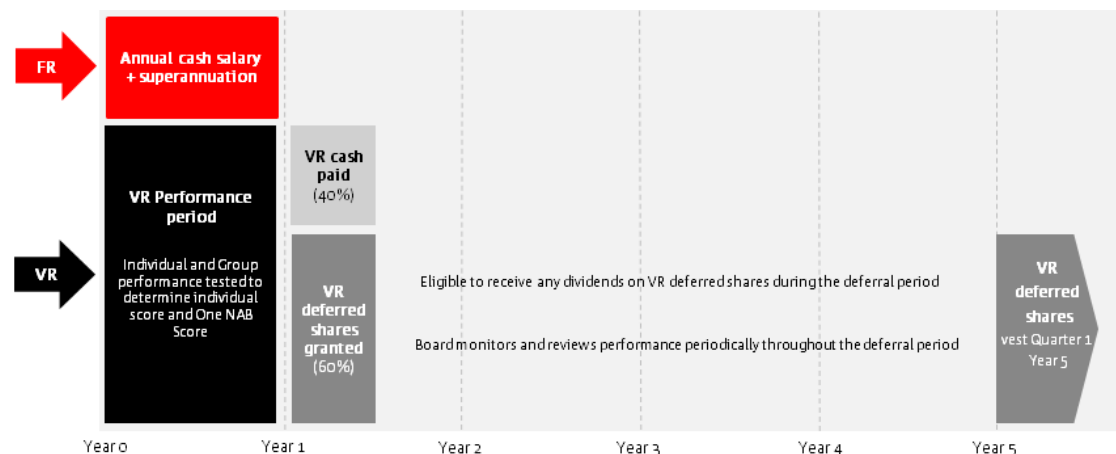
## REMUNERATION REPORT (CONTINUED)

### 2.2. How the new framework works

The Group CEO and Senior Executives now receive their remuneration in only two components, fixed remuneration and variable reward:

<b>Fixed Remuneration</b>	<ul style="list-style-type: none"> <li>• Annual cash salary (including superannuation)</li> <li>• Set with consideration of role complexity and responsibilities; capabilities; experience and knowledge; individual performance; internal and external market role relativities</li> <li>• Adjustments are only made to fixed remuneration to remain market competitive or to reflect changes in role scope</li> <li>• Benchmarked against market data from a peer group of 20 ASX-listed companies, including NAB's major competitors</li> </ul>
<b>Variable Reward</b>	<ul style="list-style-type: none"> <li>• The Group CEO and Senior Executives are eligible to receive a single variable reward (replacing "short term" and "long term" incentives)</li> <li>• 40% of the variable reward will be paid in cash</li> <li>• 60% will be awarded in NAB shares (VR deferred shares)</li> <li>• The VR deferred shares will be subject to a minimum four year deferral period. However, the Board has discretion to extend the deferral period, forfeit VR deferred shares during the deferral period on resignation, dismissal for cause, failure to meet threshold conduct requirements or if the Board determines that it should exercise its discretion or clawback VR deferred shares</li> <li>• During the deferral period the Executives:             <ul style="list-style-type: none"> <li>• will receive any dividends paid on their VR deferred shares</li> <li>• will not be able to sell or otherwise deal with their VR deferred shares</li> </ul> </li> </ul>

### 2.3 Timeline for the allocations of rewards under the new framework



Deferral of a significant portion of variable reward for four years ensures decisions are made for the longer term and aligns Executive remuneration with the shareholder experience while providing the ability for the Board to adjust variable reward if required (refer Section 3.4) and supports Executive retention.

### 2.4 How an Executive's VR outcome is calculated

Each Executive's VR outcome for a financial year is determined in accordance with the following formula. The formula considers both the Group's performance and the Executive's individual performance over the financial year along with the Executive's target VR opportunity:

$$\begin{array}{c}
 \text{The Executive's target VR opportunity} \\
 (\$)
 \end{array}
 \times
 \begin{array}{c}
 \text{The Executive's individual score} \\
 \text{(which reflects the Executive's} \\
 \text{performance over the financial year)}
 \end{array}
 \times
 \begin{array}{c}
 \text{One NAB Score} \\
 \text{(which reflects the Group's} \\
 \text{performance over the financial year)}
 \end{array}$$

An Executive's actual VR outcome can be higher or lower than their target VR opportunity, but will not exceed their maximum VR opportunity, and will depend on the Executive's individual score and the One NAB Score for the financial year, both of which are determined by the Board.

The Board retains the discretion to adjust any VR outcome as it sees fit. The Board used its discretion and applied further reductions in 2018.

## REMUNERATION REPORT (CONTINUED)

### 2.5 Target VR opportunities for 2018

Each Executive is given a target VR opportunity and a maximum VR opportunity based on their FR and their role. The opportunities for 2018 are outlined in the table below as a percentage of their FR.

If an Executive or the Group performs above expectation, then the Executive may receive a VR outcome above target.

Similarly, if the Executive or the Group fails to meet the expectations set at the beginning of the financial year, then the Executive's VR outcome may be less than target, possibly zero.

Title	Target VR opportunity	Maximum VR opportunity
	(% of FR)	(% of FR)
Group CEO	200%	300%
Chief Risk Officer and Chief Legal and Commercial Counsel	120%	180%
All other Senior Executives	170%	255%

Rachel Slade remained on the remuneration arrangements of her prior role while acting as the Group Executive Customer Products and Services.

### 2.6 One NAB Score - Group Performance

#### (a) Overview

The One NAB Score is a measure of the Group's performance over the financial year.

The Board assesses the Group's performance against certain performance measures determined by the Board at the beginning of the financial year. These include financial and non-financial measures and are reviewed annually by the Board. The final One NAB Score is subject to Board discretion, taking into account qualitative matters (such as the quality of the financial results, management of risk, people and reputation, shareholder expectations, and sustainability and the environment).

For 2018 the Board determined the One NAB Score based on four equally weighted performance measures:

Cash earnings	Cash return on equity (Cash ROE)	Return on total allocated equity (ROTAE)	Business transformation (as evidenced by improvement in NPS and productivity savings)
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**The Board adjusted One NAB Score was 80% for 2018**  
**The Board adjusted the One NAB Score for Executives downwards to 70% for 2018**

The Group's performance was solid but below target. Good progress was made executing NAB's transformational strategy and the Group met the transformation productivity performance measure as set by the Board (see table in Section 2.6(b)). However, NAB did not achieve the Board's target increase in customer outcomes (as measured by NPS) and costs were incurred in connection with the resolution of certain customer-related remediation programs.

Considering the Group's performance against the stated performance measures as well as a number of qualitative measures, including matters that have featured in the Royal Commission, the Board determined a One NAB Score for 2018 of 80%.

The table below shows the Group's annual financial performance over the last five years and its impact on shareholder value, taking into account dividend payments, share price changes, and other capital adjustments during the period.

Financial performance measure	2018	2017	2016	2015	2014
Basic earnings per share (cents)	215.6	228.2	242.4	271.7	214.1
Cash earnings (\$m)	5,702	6,642	6,483	6,222	5,055
Dividends paid per share	\$1.98	\$1.98	\$1.98	\$1.98	\$1.96
Company share price at start of year	\$31.50	\$27.87	\$29.98	\$32.54	\$34.32
Company share price at end of year	\$27.81	\$31.50	\$27.87	\$29.98	\$32.54
Absolute Total Shareholder Return (TSR) for the year	(5.4%)	20.1%	(0.7%)	(2.0%)	0.4%

## REMUNERATION REPORT (CONTINUED)

### (b) Reduction for Executives following the exercise of Board discretion

For 2018 for the Group CEO and Senior Executives<sup>(4)</sup> the Board determined the One NAB Score should be further reduced by 10% to 70%.

The Board took that action because it considers that the Group CEO and Senior Executives must be held the most accountable and need to do more, individually and collectively, to ensure NAB does the right thing by its customers. This is a core NAB value. In respect of 2018, the Board considered that customer conduct issues faced by NAB, many of which have featured in the Royal Commission, should have been dealt with better and faster. The Board expects the Group CEO and Senior Executives to lead the Group in pursuit of NAB's vision to be Australia's leading bank, trusted by customers for exceptional service. The Group CEO and Senior Executives agree, and are fully committed to doing so.

Performance measure	Weighting	Outcome	Result
Cash earnings	25%	95% Achieved	• \$5.70 billion against plan of \$6.02 billion
Cash ROE	25%	96% Achieved	• 11.7% against plan of 12.2%
ROTAE	25%	95% Achieved	• 12.1% against plan of 12.7%
Transformation	25%	50% Achieved	• Productivity savings of \$320 million against plan of \$300 million • Average Priority Segments NPS score of -15 is below the target score of -10 (August 2017 to August 2018)
Board adjusted One NAB Score		80%	
<b>Board adjusted One NAB Score for Executives</b>		<b>70%</b>	

### 2.7 Changes to how the One NAB Score is calculated for 2019

The Board has approved changes to the way in which the One NAB Score will be calculated for 2019 to drive simplicity, transparency and improve risk sensitivity further. The Board considers the changes will deliver a greater emphasis on risk performance and more variability in the One NAB Score. The score remains based on quantitative metrics, including key financial and transformation measures and will remain subject to Board discretion.

The changes are to the performance measures, which will be cash earnings (25%), risk adjusted ROTAE (50%) and transformation (25%). Similar to 2018, the transformation performance measure will consist of key metrics that will track the success of the Group's transformation strategy.

### 2.8 Individual scores

At the start of the financial year, each Executive receives an individual performance plan which sets out the Board's expectations for the Executive over that year in certain key areas. Each Executive's individual performance plan complements their accountabilities as set out in their respective BEAR accountability statements. The key areas covered by the individual performance plans are those that the Board considers to be important to NAB's strategy to deliver sustainable customer, shareholder and business outcomes.

For 2018, there were five key areas in Executive individual performance plans which were each given an equal weighting:

Customer outcomes	Risk	People management	Delivery of strategy	Financial performance
20%	20%	20%	20%	20%

At the end of each financial year, the Board assesses an Executive's performance against the Executive's individual performance plan. The Board also considers the extent to which the Executive has demonstrated NAB's values and behaviours over the financial year which are a key part of achieving NAB's vision and strategy.



<sup>(4)</sup> Excluding Rachel Slade who remained on her previous remuneration, including variable reward arrangements, while acting as Group Executive Customer Products and Services.

REMUNERATION REPORT (CONTINUED)

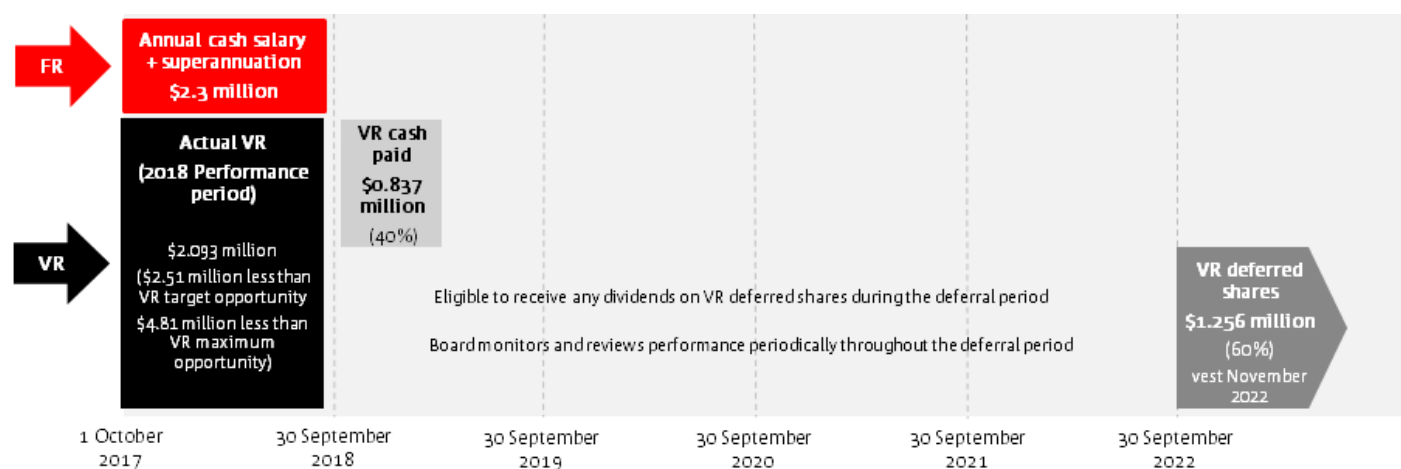
Following that assessment, each Executive is given an individual performance rating using a rating scale consisting of Not Achieved, Partially Achieved, Achieved, Highly Achieved and Outstanding. The performance rating is then translated into an individual score that is used to calculate the Executive's VR outcome for the financial year.

2.9 2018 VR outcomes for Executives

(a) Group CEO's VR outcome

The figures below outline the Group CEO's actual VR outcome for 2018 and how that outcome compares to his target and maximum VR opportunities.

Name	Target VR \$	Actual VR \$	Actual VR as % of target %	Actual VR as % of maximum %	VR cash \$	VR deferred shares \$
Andrew Thorburn	4,600,000	2,093,000	45.5	30.3	837,200	1,255,800



(b) Group CEO's performance rating and individual score

The Board considered that the Group CEO had performed strongly in a difficult environment, especially in: leading the transformation; pursuing growth opportunities in both the business bank and the corporate and institutional bank; building a customer-centred culture; developing business leaders; actively managing succession planning; simplifying the product offering; leading the business transformation to strengthen the Group's technology; and, reducing risk for customers and shareholders. Were these the only factors relevant to an assessment of the Group CEO's performance, the Board would have considered it appropriate to award him an individual score toward the top of the range for an Achieved outcome.

However, the Group CEO has accepted accountability for NAB's failure to fix mistakes quickly, remediate customers promptly and set things right. These failures have impacted NAB's reputation. In addition, certain matters emerged in the course of an investigation into an alleged fraud on NAB by a former employee and supplier to NAB. These included certain control failings and breaches of policy in the Office of the CEO, and a small number of unintended breaches of policy by the Group CEO. These matters have been resolved and closed to the Board's satisfaction. The Board and Group CEO take all of these matters seriously and consider that it is appropriate that the Group CEO's individual score be reduced to 65%. Multiplying this individual score by the Board adjusted One NAB score of 70% generates a variable reward outcome of 45.5% of VR target.

For 2018, this outcome means the Group CEO was awarded \$2.51 million (36.3%) less than his target total remuneration. Including illustrative dividends (as described on page 41), this equates to \$3.03 million (38.2%) less than his target total remuneration.

The following provides a summary of the Board's assessment of the Group CEO's performance for 2018.

## REMUNERATION REPORT (CONTINUED)

Measures	Outcomes
<b>Customer</b> <ul style="list-style-type: none"> <li>Embed customer culture</li> <li>Priority segments NPS</li> </ul>	<ul style="list-style-type: none"> <li>Launched the Group's new purpose which has customer at the centre</li> <li>Customer journeys delivering uplift in operational NPS</li> <li>Rural and regional strategy implementation - first mover on actions to support farmers experiencing drought (farm management debt offsets, removal of default interest charges) and pausing branch closures in drought areas</li> <li>Home loan standard variable rate strategy - rewarding customers for loyalty</li> <li>Average Priority Segments NPS score of -15 is below the target score of -10 (August 2017 to August 2018)</li> <li>Poor customer outcomes featured in the Royal Commission</li> </ul>
<b>Financial performance</b> <ul style="list-style-type: none"> <li>Cash earnings</li> <li>Cash ROE</li> <li>Productivity and investment benefits</li> <li>Balance sheet strength</li> </ul>	<ul style="list-style-type: none"> <li>Achieved \$5.70 billion cash earnings against plan of \$6.02 billion</li> <li>Revenue was higher, with good lending growth and stable margins</li> <li>Productivity savings of \$320 million</li> <li>Capital - clear path to unquestionably strong</li> <li>Margins well managed</li> <li>Asset quality sound</li> </ul>
<b>Leadership and people</b> <ul style="list-style-type: none"> <li>Talent management</li> <li>Build banker capability</li> <li>Employee engagement</li> <li>Gender diversity metrics</li> </ul>	<ul style="list-style-type: none"> <li>Significant investment in people capability in business bank, risk and operations; building a world class technology team</li> <li>Key Senior Executive talent appointments as a result of strong succession planning</li> <li>Focus on leadership capability including launching the new E.P.I.C. leadership framework</li> <li>Employee engagement score of 54% was below the Group's 2018 objective and not at top quartile, however an improvement on mid-year pulse check of 48%</li> <li>2018 gender diversity metrics not met, however progressing towards 2020 targets</li> </ul>
<b>Delivery of strategy</b> <ul style="list-style-type: none"> <li>Strategy milestones</li> </ul>	<ul style="list-style-type: none"> <li>Completed year 1 of a 3 year transformation agenda, including meeting year 1 simplification targets</li> <li>Completion of year 1 of a 3 year technology and people strategy to drive improved customer experience</li> <li>Best business bank strategy is clear and SME loan growth more than double major bank peer average</li> <li>Wealth strategy clear; divestment plan for MLC and more focussed offering through JBWere, Private Bank and nabtrade</li> </ul>
<b>Risk</b> <ul style="list-style-type: none"> <li>Adherence to risk frameworks</li> </ul>	<ul style="list-style-type: none"> <li>Role modelled and driven a strong tone from the top on lifting and improving risk management standard and outcomes</li> <li>Progress on risk management priorities and uplift in risk framework adequacy and operating effectiveness</li> <li>Further improvements required in controls, remediation and reputation, faster remediation required of matters which featured in the Royal Commission</li> </ul>
<b>Values</b> <ul style="list-style-type: none"> <li>Demonstration of NAB's values and behaviours</li> </ul>	<ul style="list-style-type: none"> <li>Board assessed as consistently demonstrating leadership, values and behaviours</li> </ul>
<b>Overall rating</b>	Achieved

REMUNERATION REPORT (CONTINUED)

(c) Senior Executives' VR outcomes

The table below outlines the actual VR outcome for each of the Senior Executives for 2018 and how that outcome compares to their target and maximum VR opportunities. The variance in the individual scores reflects the differences in each Senior Executive's performance in the key areas of their individual performance plan.

Name	Target VR \$	Actual VR \$	Actual VR as % of target %	Actual VR as % of maximum %	VR cash \$	VR deferred shares \$
Mike Baird	2,040,000	1,428,000	70.0	46.7	571,200	856,800
Sharon Cook	1,080,000	907,200	84.0	56.0	362,880	544,320
David Gall	1,560,000	764,400	49.0	32.7	305,760	458,640
Andrew Hagger <sup>(1)</sup>	2,040,000	357,000	17.5	11.7	142,800	214,200
Anthony Healy	2,040,000	1,428,000	70.0	46.7	571,200	856,800
Gary Lennon	1,870,000	1,047,200	56.0	37.3	418,880	628,320
Angela Mentis	2,040,000	1,428,000	70.0	46.7	571,200	856,800
Lorraine Murphy	1,360,000	714,000	52.5	35.0	285,600	428,400
Rachel Slade <sup>(2)</sup>	40,306	48,367	120.0	80.0	19,347	29,020
Patrick Wright	2,550,000	2,677,500	105.0	70.0	1,071,000	1,606,500
<b>Former Senior Executive</b>						
Antony Cahill	-	-	-	-	-	-

<sup>(1)</sup> Mr Hagger, who ceased employment with NAB on 14 November 2018, will receive his VR deferred share component in cash at the end of the deferral period, payment of which will be subject to the same forfeiture, deferral extension and clawback conditions as VR deferred shares.

<sup>(2)</sup> Ms Slade remained on the remuneration arrangements of her prior role while acting as the Group Executive Customer Products and Services. The amounts shown relate to the portion of 2018 that Ms Slade was KMP.

The individual outcomes for Senior Executives varied between 17.5% and 105% (excluding Antony Cahill and Rachel Slade) reflecting their individual performance against customer outcomes, Group and divisional financial performance, people management outcomes, delivery of strategy and risk. The Board also made a number of reductions to the individual scores of certain Executives for customer, risk and reputation matters.

2.10 VR deferred share allocation methodology

The number of VR deferred shares to be allocated to the Group CEO (subject to shareholder approval) and other Senior Executives was determined using a face value methodology. Specifically, it was determined by dividing 60% of the Executive's actual VR outcome by \$27.63 (being NAB's weighted average share price over the period from 24 September to 28 September 2018 (inclusive)). The actual value an Executive receives from the VR deferred shares allocated to them will depend on the number of VR deferred shares that vest at the end of the four year deferral period, the NAB share price at that time and the dividends paid by NAB during the deferral period.

2.11 Mandatory shareholding requirement

Executives are required to accumulate and retain NAB equity <sup>(1)</sup> over a five year period from commencement as KMP to an amount equal to:

- Two times fixed remuneration for the Group CEO.
- One times fixed remuneration for the other Senior Executives.

The new Executive remuneration framework sets the level of deferral (at target) so that the shareholding requirement will be exceeded and maintained within two years. If the Executives were to receive 100% of their VR target each year for four years, the amount of VR deferred shares received as a factor of their current annualised fixed remuneration (subject to share price movement) would be:

- 4.8 times for the Group CEO.
- 2.9 times for the Chief Risk Officer and Chief Legal and Commercial Counsel.
- 4.1 times for all other Senior Executives.

<sup>(1)</sup> Includes NAB shares held by the Executive, equity received under NAB's employee equity plans that have vested and are retained by the Executive, unvested deferred STI performance rights and VR deferred shares.

## REMUNERATION REPORT (CONTINUED)

### 2.12 Realised remuneration

The following table is a voluntary non-statutory disclosure that shows the realised remuneration each Executive received (or was entitled to receive) during 2018. The amounts shown include fixed remuneration, cash VR to be paid in respect of 2018, the previous years' deferred STI which vested, vested LTI and other equity awards that vested during 2018 (including the 2012 LTI which partially vested in December 2017 after partially achieving the relative TSR performance hurdles). The value of equity awards is calculated using NAB's closing share price on the vesting or forfeiture or lapsing date. Not all amounts have been prepared in accordance with accounting standards and this information differs to the statutory remuneration table (Section 5.1) which shows the expense for vested and unvested awards in accordance with accounting standards.

Name	2018 related remuneration			Prior years' related remuneration			Total remuneration realised	Equity forfeited / lapsed <sup>(6)</sup>
	Fixed remuneration <sup>(1)</sup>	VR cash <sup>(2)</sup>	Total	Deferred STI vested <sup>(3)</sup>	LTI vested <sup>(4)</sup>	Other awards vested / paid <sup>(5)</sup>		
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Group CEO</b>								
Andrew Thorburn	2,282,511	837,200	3,119,711	1,670,292	1,412,502	-	6,202,505	(752,048)
<b>Senior Executives</b>								
Mike Baird	1,222,965	571,200	1,794,165	-	-	-	1,794,165	-
Sharon Cook	803,013	362,880	1,165,893	-	-	-	1,165,893	-
David Gall	1,306,557	305,760	1,612,317	452,510	337,275	-	2,402,102	(179,535)
Andrew Hagger <sup>(7)</sup>	1,198,529	142,800	1,341,329	816,715	1,329,400	-	3,487,444	(707,810)
Anthony Healy	1,519,003	571,200	2,090,203	587,547	197,935	1,101	2,876,786	(105,310)
Gary Lennon	1,104,291	418,880	1,523,171	307,852	381,274	123,677	2,335,974	(202,961)
Angela Mentis	1,583,239	571,200	2,154,439	680,287	293,276	557,189	3,685,191	(156,140)
Lorraine Murphy	763,351	285,600	1,048,951	215,484	-	298,228	1,562,663	-
Rachel Slade (for part year)	52,665	19,347	72,012	-	-	-	72,012	-
Patrick Wright	1,734,833	1,071,000	2,805,833	-	-	698,852	3,504,685	-
<b>Former Senior Executive</b>								
Antony Cahill (for part year)	1,109,554	-	1,109,554	742,462	281,575	557,189	2,690,780	(7,715,952)

<sup>(1)</sup> Fixed remuneration includes cash salary, cash value of non-monetary benefits, superannuation and other long term benefits consistent with the statutory remuneration table in Section 5.1.

<sup>(2)</sup> The cash component of the VR provided in respect of 2018 is scheduled to be paid on 12 December 2018 in Australia and 28 November 2018 in NZ.

<sup>(3)</sup> Deferred STI amounts from the 2015 Tranche 2 and 2016 Tranche 1 STI program fully vested in November 2017.

<sup>(4)</sup> The value of vested 2012 LTI performance rights. The 2012 LTI performance rights partially vested in December 2017. Further details are provided in Section 4.

<sup>(5)</sup> Amounts related to awards which vested or were paid during 2018. This includes equity-based programs from prior years (other than the deferred STI equity referred to in (3) and LTI performance rights referred to in (4)). The amounts include Customer Advocacy Incentive (CAI) shares provided to Mr Lennon in March 2016, General Employee shares granted in December 2014 to Mr Healy which fully vested in December 2017, retention awards provided to Mr Cahill and Ms Mentis in 2016 that fully vested in July 2018, the final Tranche of Ms Murphy's commencement award which fully vested in September 2018 and the third tranche of Mr Wright's commencement award which was paid in March 2018. Dividends received by Executives during 2018 for any unvested share awards are also included. The amount is calculated for the 2017 final dividend of 99 cents (record date of 10 November 2017) and the 2018 interim dividend of 99 cents (record date of 16 May 2018). Both dividends were fully franked.

<sup>(6)</sup> The amounts include the value of lapsed 2012 LTI performance rights for eligible Executives, LTI performance rights that were forfeited on cessation of employment for Mr Hagger, and STI performance rights and LTI performance rights for Mr Cahill that were forfeited on resignation.

<sup>(7)</sup> Mr Hagger ceased as KMP on 1 October 2018 and ceased employment with the Group on 14 November 2018. On cessation of employment, Mr Hagger received a termination payment (which was a retrenchment payment in accordance with his contract).

## REMUNERATION REPORT (CONTINUED)

### Section 3 - Remuneration governance and frameworks

#### 3.1 The role of the Remuneration Committee

The Committee is responsible for reviewing, assessing and recommending to the Board, remuneration policies and practices that encourage good customer outcomes, sustainable enterprise outcomes, enhance long term shareholder returns, nurture a strong culture and are in accordance with applicable regulatory requirements and global regulatory trends. The Committee considers the interests of all stakeholders in fulfilling its responsibilities.

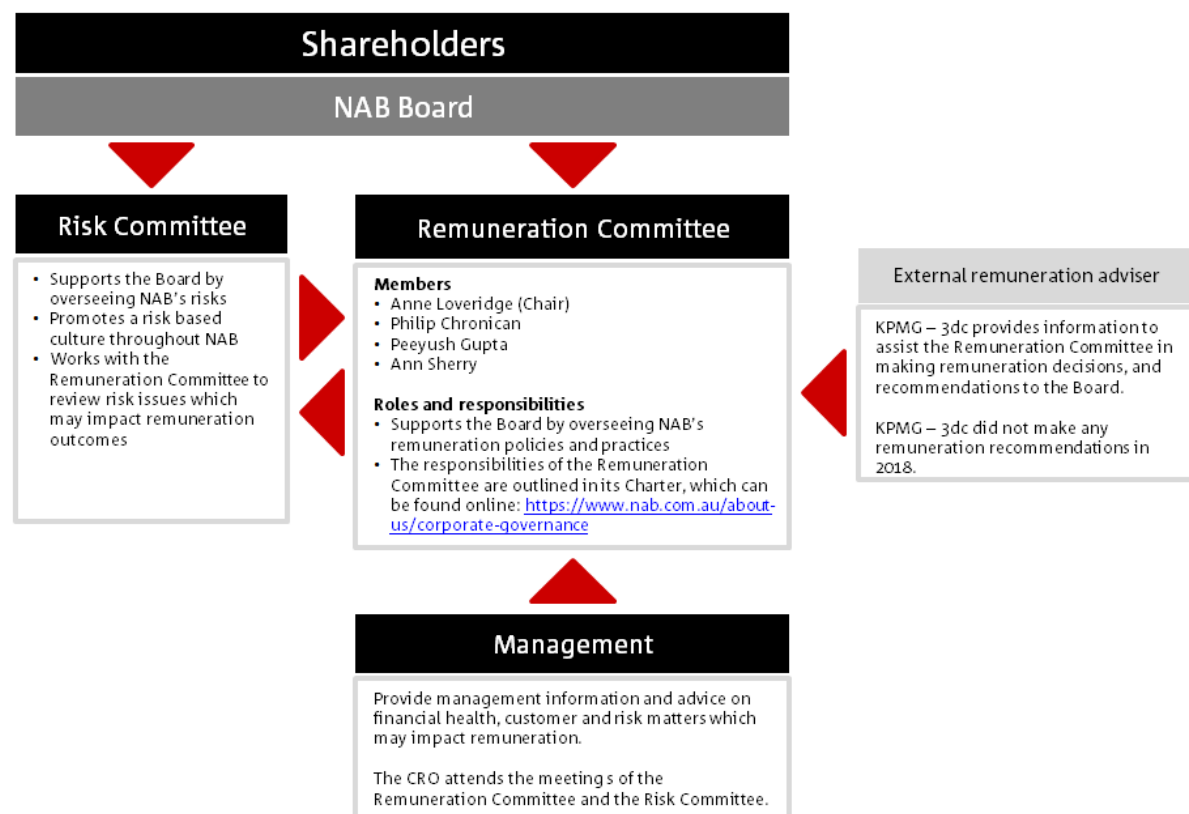
#### 3.2 Activities of the Committee in 2018

In 2018, the activities of the Committee included:

- Completing its strategic review of NAB’s Executive remuneration framework and practices. The changes comply with laws and regulations, including the BEAR.
- Approving the closure of a number of legacy sales based reward plans and achieving compliance from 1 October 2018 with the retail banking remuneration related recommendations of the Sedgwick Report, in advance of the 2020 requirement.
- Overseeing consequence management outcomes for conduct, regulatory and prudential breaches and incidents of behaviour that are inconsistent with the Group’s risk appetite, desired culture, Code of Conduct or values.
- Considering individual risk management performance and impact on individual variable reward outcomes. In respect of the 2018 year, the Board exercised its discretion and forfeited deferred variable reward for a number of individuals, including former Executives as a result of customer, risk and reputation matters.
- Considering Group remuneration outcome recommendations (with assistance from the Board Risk Committee) to the Board taking into account the overall health of the Group’s financial result against the risk management framework, risk appetite and qualitative factors. Considerations included prudential compliance, breaches and incidents, timeliness of escalation and management of events and breaches. Customer, risk and reputational impacts were also considered. This resulted in the Board determining a One NAB Score of 80% for the Group, further reduced to 70% for Executives.
- Considering select strategic people topics as part of an expansion of the Committee’s remit in 2018. The expansion was to facilitate a deeper focus on the Group’s People Strategy during a time of significant transformation.

#### 3.3. The remuneration governance framework

The remuneration governance framework is illustrated in the diagram below.





## REMUNERATION REPORT (CONTINUED)

### 3.4 Remuneration plan governance

- *Board discretion:* The Board has absolute discretion to adjust Rewards<sup>(1)</sup> down, or to zero, where appropriate (including as a result of Malus<sup>(2)</sup>). This includes varying the vesting of Rewards. The Board's considerations may include the Group's financial performance, the quality of financial results, management of risks and shareholder expectations. Board discretion may apply to any employee across the Group, by division, by role or individual, depending on circumstances.
- *Clawback:* Clawback (recovery of paid and vested Rewards) may apply to Executives, other accountable persons and some UK employees. This ability to reduce the vesting outcome for VR deferred shares along with the assessment undertaken when determining an Executive's VR outcome effectively replace the performance conditions applying to rewards allocated under the previous Executive remuneration framework. At the end of the deferral period, the Executive can deal with their VR deferred shares provided those VR deferred shares have vested and not been forfeited.
- *Resignation:* If an employee resigns, any unvested Rewards will generally lapse or be forfeited, unless the Board determines otherwise. Any unvested Rewards that are retained will remain subject to the original performance criteria and timetable.
- *Forfeiture:* An Executive's VR deferred shares will be forfeited if:
  - The Board determines that some or all of the VR deferred shares will be forfeited on cessation of employment with the Group and in other circumstances (other than cessation due to retrenchment or redundancy).
  - The Board determines that the VR deferred shares will be forfeited following the occurrence of a 'Malus Event'<sup>(2)</sup>.
  - The Board determines that the VR deferred shares were granted in error.
  - Any other circumstances requiring forfeiture of the VR deferred shares under the Group Remuneration Policy occur.
- *Conduct standards:* Vesting and grant of all forms of Reward are subject to review for compliance with NAB's Code of Conduct (NAB's Code of Conduct is found online at: [www.nab.com.au](http://www.nab.com.au)).
- *Insider trading and hedging policy:* Directors and employees are prohibited from protecting the value of their equity Rewards by hedging. Further details are available in the Group Securities Trading Policy, found online at: [www.nab.com.au](http://www.nab.com.au).
- *Change of control:* The Board generally has discretion to determine the treatment of unvested Rewards at the time a change of control event occurs. Vesting of the VR deferred shares will not be automatic and the Board will retain discretion in relation to the vesting outcome including absolute discretion to forfeit all VR deferred shares.

### 3.5 Remuneration frameworks for Employees

During 2018, a number of legacy sales based reward plans were closed. From 1 October 2018, NAB is fully compliant with the retail banking remuneration related recommendations of the Sedgwick Report, in advance of the 2020 requirement.

There were no other changes to the remuneration frameworks governing Employees of the Group for 2018. Those frameworks are designed to support the Group's strategy through building a strong culture that encourages the right behaviours to deliver sustainable customer, shareholder and business outcomes. They do that by ensuring that the reward mix for the majority of employees contains a variable component and that there are appropriate consequences for an employee's reward where the employee has engaged in inappropriate risk taking or demonstrated poor behaviours.

Consistent with the assessment for Executives (but without the additional 10% reduction applied by the Board), a One NAB Score of 80% has been applied. An assessment of each employee's individual performance is also undertaken.

For 2019, the Group STI applying to eligible Employees of the Group has been renamed the Group VR plan.

In 2019 under that plan, the variable reward for eligible Employees will be based on the One NAB Score and the performance measures to be assessed to determine that score will be cash earnings (25%), risk adjusted ROTAE (50%) and Transformation (25%) (see Section 2.7 for more detail). Under that plan the quantum and length of deferral will be increased for any employee who earns a VR of more than \$50,000. Employees who earn a VR of \$50,000 or less will not have any deferral applied.

The variable rewards of Employees are generally set at lower multiples of fixed remuneration than Executives.

<sup>(1)</sup> In this Section, the term 'Reward' includes VR deferred shares to be granted to Executives, deferred STI awards granted to other employees of the Group and deferred STI and LTI awards granted in previous years.

<sup>(2)</sup> Such as where the Executive has failed to comply with their accountability obligations under BEAR, has engaged in fraud, dishonesty, gross misconduct, behaviour that may negatively impact the Group's long-term financial soundness or prudential standing or behaviour that brings NAB into disrepute, or has materially breached a representation, warranty, undertaking or obligation to the Group.

## REMUNERATION REPORT (CONTINUED)

### Section 4 - Testing of LTI performance rights granted in previous years

The table below shows the performance of the Group against the LTI performance hurdles for the 2012 and 2013 LTI awards which were tested during 2018. Both awards had two TSR performance hurdles. Vesting for both hurdles is based on NAB's TSR result against two TSR peer groups. The vesting schedule is: 50% vesting at the 50th percentile on a straight line scale up to 100% vesting at the 75th percentile.

The performance hurdles for the 2012 LTI, measured over a 5 year performance period, were subject to a second test during 2018. NAB's TSR over the performance period was 80.94%. Accordingly, the performance hurdles were partially achieved resulting in partial vesting of the award as shown in the table below.

The performance hurdles for the 2013 LTI, measured over a 4 year performance period, were not achieved and therefore none of the 2013 LTI performance rights vested. NAB's TSR over the performance period was 22.56%. The 2013 LTI performance rights are subject to a final test over a five year performance period (11 November 2013 to 12 November 2018) in November 2018.

Details of the LTI awards granted in respect of previous years, including 2012 and 2013, can be found in NAB's previous remuneration reports which are available at [www.nab.com.au/about-us/shareholder-centre/financial-disclosuresandreporting/annual-reports-and-presentations](http://www.nab.com.au/about-us/shareholder-centre/financial-disclosuresandreporting/annual-reports-and-presentations).

LTI Award	Performance hurdle	Performance period	Percentile ranking	% of rights vested	% of rights lapsed	% of rights remaining
2012	TSR relative to S&P/ASX50 (50%) <sup>(1)</sup>	12/11/2012 to 12/11/2017	58 <sup>th</sup>	66.2	33.8	-
2012	TSR relative to Top Financial Services (50%) <sup>(2)</sup>	12/11/2012 to 12/11/2017	57 <sup>th</sup>	64.2	35.8	-
2013	TSR relative to S&P/ASX50 (50%) <sup>(3)</sup>	11/11/2013 to 11/11/2017	42 <sup>nd</sup>	-	-	100
2013	TSR relative to Top Financial Services (50%) <sup>(2)</sup>	11/11/2013 to 11/11/2017	29 <sup>th</sup>	-	-	100

<sup>(1)</sup> The peer group for this performance hurdle is the Standard & Poors / ASX capitalisation index comprised of the 50 largest companies by market capitalisation in Australia as at 1 October 2012. The following companies were de-listed during the performance period and have been excluded from the performance hurdle test: Asciano, Novion Property Group (formerly CFS Retail PR. TST. Group), Toll Holdings, Twenty-First Century Fox CDI.'B' (formerly News Corp CDI. 'B'), Westfield Group and Westfield Retail Trust. Under the terms of the award, there is no substitution for de-listed companies.

<sup>(2)</sup> The peer group for this performance hurdle is: AMP Limited, Australia and New Zealand Banking Group Limited, Bank of Queensland Limited, Bendigo & Adelaide Bank Limited, Commonwealth Bank of Australia, Suncorp Group Limited and Westpac Banking Corporation.

<sup>(3)</sup> The peer group for this performance hurdle is the Standard & Poors / ASX capitalisation index comprised of the 50 largest companies by market capitalisation in Australia as at 1 October 2013. The following companies were de-listed during the performance period and have been excluded from the performance hurdle test: Asciano, Novion Property Group (formerly CFS Retail PR. TST. Group), Toll Holdings, Twenty-First Century Fox CDI.'B' (formerly News Corp CDI. 'B'), Westfield Group and Westfield Retail Trust. Under the terms of the award, there is no substitution for de-listed companies.

## REMUNERATION REPORT (CONTINUED)

### Section 5 - Executive statutory remuneration disclosures

#### 5.1. Statutory remuneration

The following table has been prepared in accordance with Australian Accounting Standards and Section 300A of the *Corporations Act 2001* (Cth). The table shows details of the nature and amount of each element of remuneration paid or awarded to Executives for services provided during the year while they were Executives (including STI amounts in respect of performance during the year which are paid following the end of the year). This table is different to the realised remuneration table in Section 2.12 which is a voluntary non-statutory disclosure showing remuneration realised in 2018. In addition to the remuneration benefits below, NAB paid an insurance premium for a contract insuring all Executives as officers. It is not possible to allocate the benefit of this premium between individuals. In accordance with usual commercial practice, the insurance contract prohibits disclosure of details of the premium paid.

Name		Short-term benefits			Post-employment benefits	Other long-term benefits <sup>(5)</sup>	Equity-based benefits		Other remuneration <sup>(8)</sup>	Total <sup>(9)</sup>
		Cash salary <sup>(1)</sup>	VR Cash <sup>(2)</sup>	Non-monetary <sup>(3)</sup>	Superannuation <sup>(4)</sup>		Shares <sup>(6)</sup>	Rights <sup>(7)</sup>		
		\$	\$	\$	\$	\$	\$	\$	\$	
<b>Group CEO</b>										
Andrew Thorburn	2018	2,181,408	837,200	40,247	21,318	39,538	244,314	3,026,411	-	6,390,436
	2017	2,216,311	977,500	15,530	30,646	37,881	42	3,366,164	-	6,644,074
<b>Senior Executives</b>										
Mike Baird	2018	1,169,141	571,200	28,216	21,225	4,383	166,689	325,422	-	2,286,276
	2017	535,766	227,754	6,931	13,358	2,184	-	100,852	-	886,845
Sharon Cook	2018	768,874	362,880	7,968	22,883	3,288	105,897	144,304	-	1,416,094
	2017	375,843	92,779	4,691	12,383	1,483	-	44,995	-	532,174
David Gall	2018	1,252,717	305,760	4,992	26,943	21,905	89,228	744,540	-	2,446,085
	2017	1,229,156	331,500	231,723	27,862	20,860	-	822,379	-	2,663,480
Andrew Hagger	2018	1,148,935	357,000	8,149	21,225	20,220	-	1,400,345	752,351	3,708,225
	2017	1,154,125	480,000	25,363	20,756	19,255	217,661	1,540,183	-	3,457,343
Anthony Healy	2018	1,400,464	571,200	76,280	37,876	4,383	167,402	1,080,658	-	3,338,263
	2017	897,146	582,075	26,225	70,411	13,020	946	1,183,827	-	2,773,650
Gary Lennon	2018	1,009,047	418,880	54,123	22,758	18,363	135,088	672,204	-	2,330,463
	2017	981,472	425,000	5,479	20,756	14,592	73,809	711,212	-	2,232,320
Angela Mentis	2018	1,089,781	571,200	384,931	81,165	27,362	382,232	1,035,857	-	3,572,528
	2017	1,100,800	660,000	81,419	20,756	19,413	258,508	1,150,227	-	3,291,123
Lorraine Murphy	2018	730,027	285,600	7,852	21,225	4,247	198,454	462,183	-	1,709,588
	2017	752,193	340,000	165,534	21,000	4,840	313,090	441,885	-	2,038,542
Rachel Slade (for part year)	2018	51,028	19,347	9	1,379	249	31,158	13,914	-	117,084
Patrick Wright	2018	1,272,377	1,071,000	456,977	-	5,479	312,542	520,834	34,990	3,674,199
	2017	647,019	552,500	267,490	-	2,293	-	159,946	2,796,294	4,425,542

## REMUNERATION REPORT (CONTINUED)

Name		Short-term benefits			Post-employment benefits	Other long-term benefits	Equity-based benefits		Other remuneration	Total
		Cash salary <sup>(1)</sup>	VR Cash <sup>(2)</sup>	Non-monetary <sup>(3)</sup>	Superannuation <sup>(4)</sup>	term benefits <sup>(5)</sup>	Shares <sup>(6)</sup>	Rights <sup>(7)</sup>	remuneration <sup>(8)</sup>	Total <sup>(9)</sup>
		\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Former Senior Executives</b>										
Antony Cahill (for part year) <sup>(10)</sup>	<b>2018</b>	<b>1,071,159</b>	-	<b>7,733</b>	<b>18,299</b>	<b>12,363</b>	<b>215,305</b>	<b>(1,416,372)</b>	-	<b>(91,513)</b>
	2017	1,190,793	510,000	24,045	20,756	14,222	258,508	1,099,387	-	3,117,711
Cathryn Carver (for part year)	2017	358,361	472,555	-	13,510	1,925	739,796	-	-	1,586,147
Matthew Lawrance (for part year)	2017	316,390	235,002	55	13,493	6,047	304,437	43,750	-	919,174
<b>Total Senior Executives</b>	<b>2018</b>	<b>13,144,958</b>	<b>5,371,267</b>	<b>1,077,477</b>	<b>296,296</b>	<b>161,780</b>	<b>2,048,309</b>	<b>8,010,300</b>	<b>787,341</b>	<b>30,897,728</b>
<b>Total Senior Executives</b>	<b>2017</b>	<b>11,755,375</b>	<b>5,886,665</b>	<b>854,485</b>	<b>285,687</b>	<b>158,015</b>	<b>2,166,797</b>	<b>10,664,807</b>	<b>2,796,294</b>	<b>34,568,125</b>

<sup>(1)</sup> Includes cash allowances and short-term compensated absences, such as annual leave entitlements accrued.

<sup>(2)</sup> The VR cash received in respect of 2018 is scheduled to be paid on 12 December 2018 in Australia and 28 November 2018 in NZ. The cash component of STI received in respect of 2017 was paid in full during 2018 for all Executives as previously disclosed, with no adjustment. The amount shown for Mr Hagger includes deferred VR cash (expected to be paid in November 2022) in respect of 2018, which remains subject to the same terms and conditions as VR deferred shares.

<sup>(3)</sup> Includes any motor vehicle benefits, parking, relocation costs, travel for family members, gifts and other benefits. For international assignees this may include the provision of health fund benefits and personal tax advice. Any related fringe benefits tax is included. The 2017 comparative amount has been adjusted for Mr Thorburn, Mr Hagger, Mr Healy, Ms Mentis, Mr Wright and Mr Cahill to include prior year benefits.

<sup>(4)</sup> Includes company contributions to superannuation and allocations by employees made by way of salary sacrifice of fixed remuneration. Superannuation contributions are not required to be paid to individuals based in NZ but such payments may be made as part of cash salary.

<sup>(5)</sup> Includes long service leave entitlements accrued based on an actuarial calculation.

<sup>(6)</sup> The amount included for share awards is the grant date fair value, amortised on a straight line basis over the vesting period. Refer to the Glossary of the Financial report for an explanation of the fair value basis used to determine equity-based benefits. Amounts shown for 2018 include portions of shares allocated under employee programs as follows:

a) General Employee shares granted in December 2014, March 2016, December 2016, December 2017 and to be granted in December 2018, to eligible Executives at the relevant offer time.

b) CAI shares granted to Mr Lennon in March 2016 for performance in his previous role. The shares were subject to achievement of 2017 NPS targets and service conditions which have been fully met and fully vested in December 2017.

c) Commencement shares allocated to Ms Murphy in May 2016 with 35% vested in September 2016, 32.5% vested in September 2017 and 32.5% vested in September 2018. The shares were subject to performance and service hurdles.

d) Retention shares granted in August 2016 to Mr Cahill and Ms Mentis which were restricted for approximately 24 months, subject to performance and service conditions. The shares fully vested in July 2018.

e) VR deferred shares to be granted in December 2018 in respect of performance in 2018. The shares are restricted for approximately 4 years, subject to performance and service conditions. Further detail is provided in Section 2.

<sup>(7)</sup> The amount included for performance rights is the grant date fair value, amortised on a straight line basis over the expected vesting period. Refer to the Glossary of the Financial report for an explanation of fair value basis used to determine equity-based remuneration. Amounts shown for 2018 include portions of performance rights allocated under employee programs, as shown below:

a) Deferred STI performance rights granted in March 2016 in respect of performance in 2015, February 2017 in respect of performance in 2016, and December 2017 in respect of performance in 2017. The performance rights are granted with half of each grant restricted for approximately 14 months after the end of the performance year and the remaining half for approximately 26 months after the end of the performance year.

b) Previous LTI performance rights granted in December 2013, December 2014 (and for the Group CEO in February 2015), December 2015 (and for the Group CEO in March 2016), December 2016 (and for the Group CEO in February 2017) and in December 2017 under the Group's previous LTI program.

<sup>(8)</sup> On cessation of employment, Mr Hagger received a termination payment (which was a retrenchment payment in accordance with his contract) and retained equity received under NAB's employee equity plans in accordance with the relevant terms and conditions of those plans. That equity remains subject to the relevant performance hurdles and restriction periods. Under AASB 2 Share-based Payments, the value of retained equity including performance awards (deferred STI and LTI) has been fully accounted for on cessation and included in Mr Hagger's 2018 remuneration. On separation, a number of LTI performance rights held by Mr Hagger have been forfeited based on Mr Hagger's period of service during the performance periods for those rights and the associated expense has been reversed. Mr Hagger will receive his VR deferred share component in cash at the end of the deferral period, payment of which will be subject to the same forfeiture, deferral extension and clawback conditions as VR deferred shares. These arrangements are consistent with the Group's policy and practice in such circumstances. The amount shown for Mr Wright reflects exchange rate movements related to his commencement award as disclosed in NAB's 2017 Remuneration report.

<sup>(9)</sup> The percentage of 2018 total remuneration related to performance-based remuneration was: Mr Thorburn 64%, Mr Baird 47%, Mr Cahill 8%, Ms Cook 43%, Mr Gall 47%, Mr Hagger 47%, Mr Healy 55%, Mr Lennon 54%, Ms Mentis 56%, Ms Murphy 55%, Ms Slade 55%, Mr Wright 54%.

<sup>(10)</sup> A number of unvested awards were fully forfeited and the associated expense reversed on Mr Cahill's resignation in accordance with the terms and conditions of the relevant awards.

## REMUNERATION REPORT (CONTINUED)

### 5.2 Value of shares and performance rights

The following table shows the value of shares and performance rights that were granted by NAB, forfeited, lapsed or vested for each Executive during the year to 30 September 2018. A performance right is a right to receive one NAB share subject to the satisfaction of the relevant performance conditions. The value shown is the full accounting value to be expensed over the vesting period, which is generally longer than the current year. Executives did not pay any amounts for performance rights that vested and were exercised during 2018. The number of shares provided when the rights exercise is on a one to one basis. There are no amounts unpaid on any of the shares exercised. There have been no changes to the terms and conditions of these awards, or any other awards since the awards were granted. All performance rights that vest are automatically exercised when they vest.

For the awards allocated during the year to 30 September 2018, the maximum number of shares or performance rights that may vest is shown for each Executive. The maximum value of the equity awards is the number of shares or performance rights subject to NAB's share price at the time of vesting. The minimum number of shares of performance rights and the value of the equity awards is zero if the equity is fully forfeited or lapsed.

Name		Forfeited /			Forfeited /			
		Granted <sup>(1)</sup> No.	Grant date	lapsed <sup>(2)</sup> No.	Vested <sup>(3)</sup> No.	Granted \$	lapsed <sup>(4)</sup> \$	Vested \$
<b>Group CEO</b>								
Andrew Thorburn	LTI rights	72,650	12/12/2012	(25,330)	47,320	-	(752,048)	471,085
	Deferred STI rights	27,284	9/03/2016	-	27,284	-	-	660,000
	Deferred STI rights	28,348	22/02/2017	-	28,348	-	-	689,990
	Deferred STI rights	34,807	19/12/2017	-	-	949,022	-	-
	LTI rights	95,252	19/12/2017	-	-	2,221,277	-	-
<b>Senior Executives</b>								
Mike Baird	Deferred STI rights	8,111	19/12/2017	-	-	221,149	-	-
	LTI rights	63,695	19/12/2017	-	-	940,138	-	-
Sharon Cook	Deferred STI rights	3,304	19/12/2017	-	-	90,085	-	-
	LTI rights	29,725	19/12/2017	-	-	438,741	-	-
David Gall	LTI rights	17,346	12/12/2012	(6,047)	11,299	-	(179,535)	112,485
	Deferred STI rights	6,201	9/03/2016	-	6,201	-	-	150,002
	Deferred STI rights	8,875	22/02/2017	-	8,875	-	-	216,018
	Deferred STI rights	11,805	19/12/2017	-	-	321,867	-	-
	LTI rights	48,302	19/12/2017	-	-	712,940	-	-
Andrew Hagger <sup>(5)</sup>	LTI rights	68,376	12/12/2012	(23,840)	44,536	-	(707,810)	443,370
	Deferred STI rights	13,643	9/03/2016	-	13,643	-	-	330,024
	Deferred STI rights	13,558	22/02/2017	-	13,558	-	-	330,002
	Deferred STI rights	17,093	19/12/2017	-	-	466,045	-	-
	LTI rights	63,695	19/12/2017	-	-	940,138	-	-
Anthony Healy	LTI rights	10,178	12/12/2012	(3,547)	6,631	-	(105,310)	66,014
	General employee shares	30	10/12/2014	-	30	-	-	972
	Deferred STI rights	9,400	9/03/2016	-	9,400	-	-	227,386
	Deferred STI rights	10,170	22/02/2017	-	10,170	-	-	247,538
	General employee shares	30	13/12/2017	-	-	886	-	-
	Deferred STI rights	20,720	19/12/2017	-	-	564,936	-	-
	LTI rights	53,710	19/12/2017	-	-	792,760	-	-
Gary Lennon	LTI rights	19,609	12/12/2012	(6,836)	12,773	-	(202,961)	127,159
	CAI shares	4,026	15/03/2016	-	4,026	-	-	100,006
	Deferred STI rights	10,272	22/02/2017	-	10,272	-	-	250,020
	Deferred STI rights	15,135	19/12/2017	-	-	412,659	-	-
	LTI rights	53,080	19/12/2017	-	-	783,461	-	-
Angela Mentis	LTI rights	15,084	12/12/2012	(5,259)	9,825	-	(156,140)	97,811
	Deferred STI rights	10,335	9/03/2016	-	10,335	-	-	250,004
	Retention shares	18,383	24/08/2016	-	18,383	-	-	500,018
	Deferred STI rights	12,326	22/02/2017	-	12,326	-	-	300,015
	Deferred STI rights	23,503	19/12/2017	-	-	640,815	-	-
	LTI rights	63,695	19/12/2017	-	-	940,138	-	-

## REPORT OF THE DIRECTORS

### REMUNERATION REPORT (CONTINUED)

Name		Granted <sup>(1)</sup> No.	Grant date	Forfeited /		Forfeited /		
				lapsed <sup>(2)</sup> No.	Vested <sup>(3)</sup> No.	Granted \$	lapsed <sup>(4)</sup> \$	Vested <sup>(5)</sup> \$
Lorraine Murphy	Commencement shares	10,011	11/05/2016	-	10,011	-	-	275,002
	Deferred STI rights	7,190	22/02/2017	-	7,190	-	-	175,005
	Deferred STI rights	12,108	19/12/2017	-	-	330,127	-	-
	LTI rights	42,464	19/12/2017	-	-	626,774	-	-
Rachel Slade	Commencement shares	12,462	22/02/2017	-	12,462	-	-	391,307
	General employee shares	30	13/12/2017	-	-	886	-	-
	Deferred STI shares	2,883	21/02/2018	-	-	87,499	-	-
	Transformation rights	17,248	21/02/2018	-	-	422,748	-	-
Patrick Wright	Deferred STI rights	19,675	19/12/2017	-	-	536,444	-	-
	LTI rights	69,003	19/12/2017	-	-	1,018,482	-	-
<b>Former Senior Executive</b>								
Antony Cahill	LTI rights	14,481	12/12/2012	(5,048)	9,433	-	(149,875)	93,908
	LTI rights	9,362	11/12/2013	(9,362)	-	-	(256,051)	-
	LTI rights	11,134	10/12/2014	(11,134)	-	-	(304,515)	-
	LTI rights	103,895	9/12/2015	(103,895)	-	-	(2,841,528)	-
	Deferred STI rights	12,402	9/03/2016	-	12,402	-	-	300,004
	Retention shares	18,383	24/08/2016	-	18,383	-	-	500,018
	LTI rights	57,123	14/12/2016	(57,123)	-	-	(1,562,314)	-
	Deferred STI rights	25,595	22/02/2017	(13,269)	12,326	-	(362,907)	300,015
	Deferred STI rights	18,161	19/12/2017	(18,161)	-	495,165	(496,703)	-
LTI rights	63,695	19/12/2017	(63,695)	-	940,138	(1,742,058)	-	

<sup>(1)</sup> The following securities have been granted during 2018:

a) General Employee Share Offer granted to Mr Healy and Ms Slade in December 2017.

b) LTI performance rights allocated in December 2017. The total fair value of the award at allocation is disclosed in the table above. The allocation fair value for each LTI tranche is shown in Section 5.3. The number of performance rights awarded to Executives was based on an end September 2017 fair value of \$23.55 for tranche 1 (the maximum weighted average share price (WASP) discount did not apply) and \$15.70 after applying the maximum WASP discount (fair value of \$12.88) for tranche 2 in accordance with the Board's previous policy to limit the number of LTI performance rights allocated to Executives. The end September 2017 fair values were based on the WASP at which NAB shares were traded on the ASX in the five trading days from 25 to 29 September 2017 inclusive, of \$31.39. The same WASP was used to determine the number of LTI performance rights awarded to the Group CEO which were allocated on a face value basis.

c) Deferred STI performance rights allocated in December 2017 and deferred STI shares granted in February 2018 (in respect of 2017). The performance rights are granted with half restricted for approximately 14 months after the end of the performance year and the remaining half for approximately 26 months after the end of the performance year. The deferred STI shares are restricted for approximately 14 months after the end of the performance year.

d) Transformation performance rights granted to Ms Slade in February 2018. The performance rights are restricted for approximately 36 months and are subject to achievement of NPS and cost saving targets and service conditions.

<sup>(2)</sup> The following securities have forfeited or lapsed during 2018:

a) LTI performance rights allocated in December 2012 partially lapsed in December 2017. Further details are provided in Section 4.

b) Mr Cahill's unvested deferred STI performance rights and LTI performance rights were forfeited on resignation.

<sup>(3)</sup> The following securities have vested during 2018:

a) General Employee Share Offer granted to Mr Healy in December 2014, fully vested in December 2017.

b) 2015 Tranche 2 deferred STI performance rights allocated in March 2016, fully vested in November 2017.

c) 2016 Tranche 1 deferred STI performance rights allocated in February 2017, fully vested in November 2017.

d) LTI performance rights allocated in December 2012 partially vested in December 2017. Further details are provided in Section 4.

e) CAI shares granted to Mr Lennon in respect of his previous role in March 2016 fully vested in December 2017.

f) Retention shares allocated to Mr Cahill and Ms Mentis in August 2016 fully vested in July 2018.

g) Tranche 3 Commencement award shares allocated to Ms Murphy in May 2016 fully vested in September 2017.

h) Commencement shares allocated to Ms Slade in February 2017 with 33% vested in October 2017. A further 24% and 9% is scheduled to vest in October 2018 and October 2019 respectively, subject to performance and service hurdles. The remaining 34% vested in July 2017.

<sup>(4)</sup> Calculated using NAB's closing share price on the forfeiture / lapsing date.

<sup>(5)</sup> Mr Hagger ceased as KMP on 1 October 2018 and ceased employment with the Group on 14 November 2018. On cessation of employment, Mr Hagger retained equity received under NAB's employee equity plans in accordance with the relevant terms and conditions of those plans. That equity remains subject to the relevant performance hurdles and restriction periods. On separation, a number of LTI performance rights held by Mr Hagger have been forfeited based on Mr Hagger's period of service during the performance periods for those rights. These arrangements are consistent with the Group's policy and practice in such circumstances.

## REMUNERATION REPORT (CONTINUED)

### 5.3 Determining the value of equity remuneration

The fair value of shares and performance rights (at grant date) is set out below for grants provided to Executives during 2018. The determination of the fair value considers factors such as whether the grant has non-market or market-based performance hurdles, the expected volatility of NAB's share price, the risk-free interest rate and the expected dividend yield on NAB shares for the life of the grant. This may result in different fair values for awards granted on the same day. Each performance right entitles the holder to receive one NAB share on vesting.

The grant date fair value of shares and performance rights is amortised on a straight line basis over the vesting period and included in each Executive's disclosed remuneration in accordance with statutory accounting requirements. No performance options have been granted during the year. Shares and performance rights granted during 2018 have a zero exercise price.

Type of allocation	Grant date	Shares		Grant share price <sup>(1)</sup> \$	Performance rights		
		Fair value \$	Restriction period end		Fair value \$	Exercise period From	Exercise period To <sup>(2)</sup>
General Employee Share Offer	13 December 2017	29.54	13 December 2020				
Deferred Short-Term Incentive	19 December 2017			29.85	28.17	15 November 2018	15 February 2019
Deferred Short-Term Incentive	19 December 2017			29.85	26.42	15 November 2019	15 February 2020
Long-Term Incentive <sup>(3)</sup>	19 December 2017			29.85	23.10	20 December 2021	15 March 2022
Long-Term Incentive <sup>(4)</sup>	19 December 2017			29.85	9.20	20 December 2021	15 March 2022
Long-Term Incentive <sup>(3) (5)</sup>	19 December 2017			29.85	33.66	20 December 2021	15 March 2022
Long-Term Incentive <sup>(4) (5)</sup>	19 December 2017			29.85	12.98	20 December 2021	15 March 2022
Transformation Reward <sup>(6)</sup>	21 February 2018			29.38	24.51	20 December 2020	15 March 2021
Transformation Reward <sup>(7)</sup>	21 February 2018			29.38	24.51	20 December 2020	15 March 2021

<sup>(1)</sup> The Grant share price is NAB's closing share price at the date of valuation (grant date of the relevant award). The Grant share price was used to determine the fair value.

<sup>(2)</sup> The end of the exercise period for each performance rights allocation is also the expiry date.

<sup>(3)</sup> Relates to the 2017 LTI cash ROE growth performance hurdle.

<sup>(4)</sup> Relates to the 2017 LTI relative TSR performance hurdle.

<sup>(5)</sup> The Group CEO's LTI was allocated on a 'face value' basis using a 5 day weighted average share price over the five trading days up to 30 September 2017. The fair values for the Group CEO's LTI allocation include an estimation of the cash amount equivalent to the gross value of any dividends (including payment for the value of imputation credits which applied to the dividends) which may be paid to the Group CEO on any LTI performance rights that may vest. Further detail on the Group CEO's LTI performance rights are available in NAB's 2017 Remuneration Report. The Group CEO's allocation was approved by shareholders at the December 2017 AGM.

<sup>(6)</sup> Relates to the 2018 Transformation Reward NPS target.

<sup>(7)</sup> Relates to the 2018 Transformation Reward cost savings target.

REMUNERATION REPORT (CONTINUED)

5.4. Performance rights holdings

No performance options or performance rights (i.e. entitlements to NAB shares) are granted to the Group CEO's or Senior Executives' related parties. No performance options (i.e. right requiring payment of a subscription price on vesting) are currently held by the Group CEO or Senior Executives. At 30 September 2018, no performance rights held by the Group CEO or Senior Executives were: (i) vested and exercisable; nor (ii) vested but not exercisable.

Name	Balance at beginning of year <sup>(1)</sup> No.	Granted during year as remuneration No.	Exercised during year No.	Forfeited / lapsed or expired during year No.	Balance at end of year <sup>(2)</sup> No.	Vested during year No.
<b>Group CEO</b>						
Andrew Thorburn	881,674	130,059	(102,952)	(25,330)	883,451	102,952
<b>Senior Executives</b>						
Mike Baird	-	71,806	-	-	71,806	-
Sharon Cook	-	33,029	-	-	33,029	-
David Gall	194,317	60,107	(26,375)	(6,047)	222,002	26,375
Andrew Hagger	413,918	80,788	(71,737)	(23,840)	399,129	71,737
Anthony Healy	260,363	74,430	(26,201)	(3,547)	305,045	26,201
Gary Lennon	127,316	68,215	(23,045)	(6,836)	165,650	23,045
Angela Mentis	235,118	87,198	(32,486)	(5,259)	284,571	32,486
Lorraine Murphy	54,917	54,572	(7,190)	-	102,299	7,190
Rachel Slade	-	17,248	-	-	17,248	-
Patrick Wright	-	88,678	-	-	88,678	-
<b>Former Senior Executive</b>						
Antony Cahill	233,992	81,856	(34,161)	(281,687)	-	34,161

<sup>(1)</sup> Balance may include performance rights granted prior to individuals becoming KMP. For Executives who became KMP during 2018, the balance is at the date they became KMP.

<sup>(2)</sup> For former Executives, the balance is as at the date they cease being KMP.



## REMUNERATION REPORT (CONTINUED)

### 5.5. Executives' share ownership

The number of NAB shares held (directly and nominally) by each Executive or their related parties (their close family members or any entity they, or their close family members, control, jointly control or significantly influence) are set out below:

Name	Balance at beginning of year <sup>(1)</sup> No.	Granted during year as remuneration No.	Received during year on exercise of performance rights No.	Other changes during year No.	Balance at end of year <sup>(2)</sup> No.
<b>Group CEO</b>					
Andrew Thorburn	155,124	-	102,952	15,524	273,600
<b>Senior Executives</b>					
Mike Baird	-	-	-	2,000	2,000
Sharon Cook	-	-	-	2,000	2,000
David Gall	91,269	-	26,375	(24,375)	93,269
Andrew Hagger	25,976	-	71,737	(76,457)	21,256
Anthony Healy	42,642	30	26,201	2,142	71,015
Gary Lennon	51,765	-	23,045	2,000	76,810
Angela Mentis	28,383	-	32,486	-	60,869
Lorraine Murphy	32,941	-	7,190	2,029	42,160
Rachel Slade	40,536	-	-	-	40,536
Patrick Wright	-	-	-	2,000	2,000
<b>Former Senior Executive</b>					
Antony Cahill	30,957	-	34,161	(32,161)	32,957

<sup>(1)</sup> Balance may include shares held prior to individuals becoming KMP. For Executives who became KMP during 2018, the balance is at the date they became KMP. Some opening balances have been restated to include changes in related party shares.

<sup>(2)</sup> For former Executives, the balance is as at the date they cease being KMP. The balance does not include 2018 deferred shares referred to in Section 2.9 (a) and (c) which are scheduled to be allocated to Executives in February 2019 and will be disclosed in NAB's 2019 Remuneration report.

There are no other holdings or transactions involving equity instruments, other than equity-based compensation, with Executives or their related parties.

## REPORT OF THE DIRECTORS

### REMUNERATION REPORT (CONTINUED)

#### 5.6. Executive contract terms

All Executives are employed on contracts with no fixed term. The following table shows the position and contract terms for individuals who were Executives as at 30 September 2018.

Name	Position	Termination arrangements <sup>(1)</sup>		
		Notice period (weeks)		Termination payment <sup>(2)</sup>
		Senior Executive	Company	\$
<b>Group CEO</b>				
Andrew Thorburn	Executive Director and Group Chief Executive Officer (Group CEO)	26	26	1,045,455
<b>Senior Executives</b>				
Mike Baird	Chief Customer Officer - Corporate and Institutional Banking	2	26	545,455
Sharon Cook	Chief Legal and Commercial Counsel	2	26	409,091
David Gall	Chief Risk Officer	4	26	590,909
Andrew Hagger <sup>(3)</sup>	Chief Customer Officer - Consumer and Wealth	4	26	545,455
Anthony Healy	Chief Customer Officer - Business and Private Banking	4	26	545,455
Gary Lennon	Chief Financial Officer	4	26	500,000
Angela Mentis	Managing Director and CEO of Bank of New Zealand	4	26	545,455
Lorraine Murphy	Chief People Officer	2	26	363,636
Rachel Slade	Acting Group Executive Customer Products and Services	2	26	256,994
Patrick Wright	Chief Technology and Operations Officer	2	26	681,818

<sup>(1)</sup> Employment may be terminated by either the Executive or NAB giving the applicable notice. Employee notice periods reflect a commercial decision to not spend on excessive termination payments when NAB has strong succession plans in place.

<sup>(2)</sup> Calculated as the company notice period multiplied by either the current annualised fixed remuneration or Total Remuneration Package (TRP) (fixed remuneration less employer superannuation). These are paid, subject to compliance with the law, if NAB terminates the Executive's employment agreement on notice and without cause, and makes payment in lieu of notice. Termination payments are not generally paid on resignation, summary termination or unsatisfactory performance, although the Board may determine exceptions to this. The retention or forfeiture of shares and performance rights on cessation of employment depends on applicable law and the terms and conditions of each grant including Board discretion. The amount shown is the termination payment payable, based on the Executive's current fixed remuneration or TRP if NAB were to give notice. The value does not include any value for equity holdings which may be retained, or other statutory payments that would be payable on termination.

<sup>(3)</sup> Mr Hagger ceased as KMP on 1 October 2018 and ceased employment with the Group on 14 November 2018. On cessation of employment, Mr Hagger received a termination payment (which was a retrenchment payment in accordance with his contract) and retained equity received under NAB's employee equity plans in accordance with the relevant terms and conditions of those plans. That equity remains subject to the relevant performance hurdles and restriction periods. Under AASB 2 Share-based Payments, the value of retained equity including performance awards (deferred STI and LTI) has been fully accounted for on cessation and included in Mr Hagger's 2018 remuneration. On separation, a number of LTI performance rights held by Mr Hagger have been forfeited based on Mr Hagger's period of service during the performance periods for those rights and the associated expense has been reversed. Mr Hagger will receive his VR deferred share component in cash at the end of the deferral period, payment of which will be subject to the same forfeiture, deferral extension and clawback conditions as VR deferred shares. These arrangements are consistent with the Group's policy and practice in such circumstances.

## REMUNERATION REPORT (CONTINUED)

### Section 6 - Non-executive director remuneration

#### 6.1. Fee policy and pool

Non-executive directors receive fees to recognise their contribution to the work of the Board. Additional fees are paid, where applicable, for serving on Board Committees, on Boards of controlled entities and internal advisory boards. Fees include NAB's compulsory contributions to superannuation. To ensure independence, non-executive directors are not paid any performance or reward related remuneration.

The total amount of non-executive directors' remuneration is capped at a maximum aggregate fee pool that is approved by shareholders. The current aggregate fee pool of \$4.5 million per annum was approved by shareholders at NAB's 2008 Annual General Meeting. The total Board and Committee fees, including superannuation, paid to non-executive directors in 2018 is within the approved aggregate fee pool.

Non-executive director fees are generally reviewed annually, including against fee levels paid to board members of other major Australian corporations. As a result of the 2018 fee review, the Board decided not to increase non-executive director Board or Committee fees.

The following table shows the annual fees paid to the Chairman and non-executive directors on the Board, and to non-executive directors who participate on Board committees.

	<b>Chairman (\$pa)</b>	<b>Non-executive Director (\$pa)</b>
Board	790,000	230,000
Audit Committee	65,000	32,500
Risk Committee	60,000	30,000
Remuneration Committee	55,000	27,500
Nomination & Governance Committee	-	10,000

## REPORT OF THE DIRECTORS

### REMUNERATION REPORT (CONTINUED)

#### 6.2. Statutory remuneration

The fees paid to the non-executive directors in relation to the 2018 financial year are set out below:

Name		Short-term benefits	Post-employment benefits	Total
		Cash salary and fees <sup>(1)</sup>	Superannuation <sup>(2)</sup>	
		\$	\$	\$
<b>Non-executive directors</b>				
Kenneth Henry (Chairman)	2018	769,831	20,169	790,000
	2017	770,276	19,724	790,000
David Armstrong	2018	304,831	20,169	325,000
	2017	304,746	19,724	324,470
Philip Chronican <sup>(3)</sup>	2018	414,486	20,169	434,655
	2017	403,904	19,724	423,628
Peeyush Gupta <sup>(4)</sup>	2018	659,059	20,169	679,228
	2017	629,841	19,724	649,565
Anne Loveridge	2018	274,831	20,169	295,000
	2017	275,276	19,724	295,000
Geraldine McBride	2018	242,331	20,169	262,500
	2017	235,882	19,724	255,606
Doug McKay <sup>(5)</sup>	2018	482,047	20,169	502,216
	2017	358,572	146,166	504,738
Ann Sherry	2018	212,707	18,458	231,165
Anthony Yuen	2018	286,604	5,896	292,500
	2017	286,393	6,107	292,500
<b>Former non-executive directors</b>				
Daniel Gilbert (for part year)	2017	55,551	4,904	60,455
Jillian Segal (for part year)	2017	56,081	4,904	60,985
<b>Total</b>	<b>2018</b>	<b>3,646,727</b>	<b>165,537</b>	<b>3,812,264</b>
Total	2017	3,376,522	280,425	3,656,947

<sup>(1)</sup> The portion of fees in connection with their roles, duties and responsibilities as a non-executive director, and includes attendance at meetings of the Board, and of Board committees and boards of controlled entities, received as cash. No non-monetary benefits were provided to the non-executive directors during 2018.

<sup>(2)</sup> Reflects compulsory company contributions to superannuation and, where applicable, includes additional superannuation contributions made by NAB, in lieu of payment of fees, at the election of the non-executive director.

<sup>(3)</sup> Mr Chronican received director fees of \$117,155 in his capacity as a director on the board of Bank of New Zealand, which were paid in NZD.

<sup>(4)</sup> Mr Gupta received director fees of \$381,728 in his capacity as a director on the board of a number of the Group subsidiaries, including as a director of BNZ Life. The director fees relating to BNZ Life were paid in NZD.

<sup>(5)</sup> Mr McKay received director fees of \$229,716 in his capacity as Chairman of Bank of New Zealand, which were paid in NZD.

#### 6.3. Minimum shareholding policy

Non-executive directors are required to hold, within five years of their appointment, NAB ordinary shares to the value of the annual base fee for non-executive directors. To meet the minimum requirement, non-executive directors must:

- hold at least 2,000 NAB ordinary shares within six months of their appointment; and
- acquire NAB ordinary shares to the value of at least 20% of the annual base fee for non-executive directors each year until the minimum holding requirement is met.

## REMUNERATION REPORT (CONTINUED)

### 6.4. Non-executive directors' share ownership

The number of NAB shares held (directly and nominally) by each non-executive director of NAB and the Group or their related parties (their close family members or any entity they, or their close family members, control, jointly control or significantly influence) are set out below. No performance options or performance rights are granted to non-executive directors or their related parties.

Name	Balance at beginning of year <sup>(1)</sup> No.	Acquired No.	Other changes during year No.	Balance at end of year No.
<b>Non-executive directors</b>				
Kenneth Henry	8,360	2,000	-	10,360
David Armstrong	13,765	3,124	-	16,889
Philip Chronican	30,000	1,000	-	31,000
Peeyush Gupta	6,480	1,000	-	7,480
Anne Loveridge	9,000	1,000	-	10,000
Geraldine McBride	4,960	1,000	-	5,960
Doug McKay	8,000	2,000	-	10,000
Ann Sherry	7,831	-	-	7,831
Anthony Yuen	10,464	2,000	-	12,464

<sup>(1)</sup> Balance may include shares held prior to individuals becoming KMP. For senior executives who became KMP during 2018 the balance is as at the date they became KMP.

### 6.5. Other equity instrument holdings

Holdings and transactions involving equity instruments, other than equity-based compensations, with non-executive directors or their related parties and NAB and the Group are set out below:

Name	Balance at beginning of year No.	Changes during year No.	Balance at end of year No.
<b>National Income Securities</b>			
Philip Chronican	982	-	982

## REMUNERATION REPORT (CONTINUED)

### Section 7 - Loans and other transactions

#### 7.1. Loans

Loans made to directors of NAB are made in the ordinary course of business on terms equivalent to those that prevail in arm's length transactions. Loans to Executives may be made on similar terms and conditions generally available to other employees of the Group. Loans to KMP of NAB and the Group may be subject to restrictions under applicable laws and regulations including the *Corporations Act 2001* (Cth). The opening balance is 1 October and closing balance is 30 September, or the date of commencement or cessation of a KMP.

#### Aggregated loans to KMP and their related parties

NAB and the Group	Terms and conditions	Balance at beginning of year	Interest charged	Interest not charged	Write-off	Balance at end of year
<b>KMP<sup>(1)</sup></b>	Normal	12,844,123	404,875	-	-	9,661,506
	Employee	1,994,890	88,447	-	-	1,982,362
<b>Other related parties<sup>(2)</sup></b>	Normal	7,105,655	282,867	-	-	8,426,740

<sup>(1)</sup> The aggregated loan balance at the end of the year includes loans issued to 14 KMP.

<sup>(2)</sup> Includes KMP's close family members or any entity they or their close family members control, jointly control or significantly influence.

#### Aggregated loans to KMP and their related parties above \$100,000

NAB and the Group	Terms and conditions	Balance at beginning of year	Interest charged <sup>(1)</sup>	Interest not charged	Write-off	Balance at end of year	KMP highest indebtedness during year <sup>(2)</sup>
		\$	\$	\$	\$	\$	\$
<b>Group CEO</b>							
Andrew Thorburn	Normal	-	4,843	-	-	319,592	-
<b>Senior Executives</b>							
Mike Baird	Normal	4,520,806	191,478	-	-	4,378,704	3,788,726
Sharon Cook	Normal	1,215,250	41,641	-	-	1,166,404	1,215,250
David Gall	Normal	5,966,992	169,185	-	-	5,807,978	2,482,520
Anthony Healy	Normal	1,963,221	28,282	-	-	-	-
Gary Lennon	Employee	988,759	40,409	-	-	947,359	1,111,428
Angela Mentis	Normal	2,050,826	55,205	-	-	1,291	1,788,570
Lorraine Murphy	Normal	2,453,479	83,735	-	-	2,393,105	2,456,036
Patrick Wright	Normal	14,549	101,918	-	-	3,512,652	-
<b>Non-executive directors</b>							
David Armstrong	Normal	-	7,491	-	-	366,026	-
Geraldine McBride	Normal	1,151,661	2,219	-	-	28,609	1,172,392
Doug McKay	Normal	-	-	-	-	890	460,300
<b>Former Senior Executive</b>							
Antony Cahill	Employee	980,000	47,436	-	-	982,468	1,191,052
	Normal	594,092	1,722	-	-	87,948	-

<sup>(1)</sup> The interest charged may include the impact of interest offset facilities.

<sup>(2)</sup> Represents aggregate highest indebtedness of the KMP during 2018. All other items in this table relate to the KMP and their related parties.

#### 7.2. Other transactions

From time to time various KMP and their related parties will hold investments in funds that are either managed, related to or controlled by the Group. All such transactions with KMP and their related parties are made on terms equivalent to those that prevail in arm's length transactions.

All other transactions that have occurred with KMP are made on terms equivalent to those that prevail in arm's length transactions. These transactions generally involve the provision of financial and investment services including services to eligible international assignees ensuring they are neither financially advantaged nor disadvantaged by their relocation. All such transactions that have occurred with KMP and their related parties have been trivial or domestic in nature. In this context, transactions are trivial in nature when they are considered of little or no interest to the users of the Remuneration report in making and evaluating decisions about the allocation of scarce resources. Transactions are domestic in nature when they relate to personal household activities.